Dr. Pixley Ka Isaka Seme Local Municipality
(Registration number MP304)
Annual Financial Statements
for the year ended 30 June 2017

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Service delivery
Mayoral committee	
Executive Mayor	PV Malatsi
Councillors	
	MA Dlangamandla
	L de Jager
	FE Mahlaba
	TS Masondo
	TE Manana
	BG Mavuso
	BS Mavuso
	TA Mazibuko
	NLP Moloi
	GR Nkambule
	SN Nxumalo
	XI Simelane
	V Vilakazi
Grading of local authority	3
Chief Finance Officer (CFO)	M Phetla
Accounting Officer	Malebye PB
Business address	Dr Nelson Mandela and Adelaide Tambo Street Volksrust 2470
Postal address	Private bag X 9011 Volksrust 2470
Bankers	First National Bank
Auditors	Auditor General of South Africa
Attorneys	Coetzee, Spoelstra and Van Zyl Inc Mjali and Zimema Attorneys TMN Kgomo and Associates
Telephone and fax numbers	017 - 734 6100 (Telephone) 086 630 2209 (Fax)
Email	records@pixleykaseme.gov.za
Jurisdiction	Pixley Ka Isaka Seme Municipal Boundary MP304

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 77, which have been prepared on the going concern basis, were approved by the on 30 November 2017 and were signed on its behalf by:

Malebye PB
Designation

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2017.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet at least four times per annum as per its approved terms of reference.

Name of member	Number of meetings attended
I Mpatlanyane (Chairperson)	5 / 5
M Mahonga	5 / 5
M Mothamaha	5 / 5

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166 of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

Risk management and the effectiveness of internal control

Risk management: The audit committee is not satisfied with the municipality's risk management and has reported it as such.

The **internal controls** of the municipality are of a concern to the audit committee. Continued efforts are being made to strengthen the system of internal control.

Evaluation of annual financial statements

The audit committee has:
- reviewed and discussed the unaudited annual financial statements to be included in the annual report, with the Auditor-General;
- reviewed the Auditor-General of South Africa's management report and management’s response thereto;
- reviewed changes in accounting policies;
- reviewed the entities compliance with legal and regulatory provisions;.

The audit committee concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.The Audit Committee is however concerned that internal audit department has been under-staffed.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

Chairperson of the Audit Committee

Date: ______________________

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Non-Current Assets			
Investment property	3	107,760,418	108,934,468
Property, plant and equipment	4	608,432,897	598,502,520
Intangible assets	5	-	274,216
Heritage assets	6	3,485,999	3,485,999
		719,679,314	**711,197,203**
Current Assets			
Other financial assets	7	707,199	739,297
Inventories	8	2,694,945	985,842
Receivables from exchange transactions	9	3,692,848	3,248,372
Receivables from non-exchange transactions	10	164,764	119,805
Consumer debtors	11	88,880,035	78,428,429
Cash and cash equivalents	12	86,371,774	82,886,810
		182,511,565	**166,408,555**
Total Assets		**902,190,879**	**877,605,758**
Liabilities			
Non-Current Liabilities			
Provision for water supply	13	82,324,607	84,266,415
Employee benefit obligation	14	23,092,224	23,365,407
Provisions	15	19,262,926	19,431,198
		124,679,757	**127,063,020**
Current Liabilities			
Payables from exchange transactions	16	36,990,440	38,356,328
Unspent conditional grants and receipts	17	649,325	7,965,808
VAT payable	18	4,604,201	1,992,613
Employee benefit obligation	14	1,339,595	1,156,711
Consumer deposits	19	1,663,702	1,626,975
Provisions	15	618,307	391,131
Finance lease obligation	20	6,144	73,342
		45,871,714	**51,562,908**
Total Liabilities		**170,551,471**	**178,625,928**
Net Assets		**731,639,408**	**698,979,830**
Accumulated surplus		731,639,410	698,979,830

* See Note 52 & 44

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Government grants & subsidies	21	127,377,164	129,108,780
Service charges	22	95,102,776	89,871,754
Property rates	23	36,068,131	33,059,783
Interest received (trading)	24	32,549,425	24,130,058
Licences and permits	25	5,694,999	5,547,900
Interest received - investment	26	5,342,507	5,633,780
Public contributions and donations	27	4,200,488	-
Miscellaneous other revenue		2,215,239	2,812,176
Fines, Penalties and Forfeits		365,699	284,277
Rental of facilities and equipment	28	19,710	19,435
Fair value adjustment on other financial assets		(32,098)	22,810
Total revenue		**308,904,040**	**290,490,753**
Expenditure			
Employee related costs	29	(69,387,109)	(67,813,901)
Debt Impairment	30	(56,074,811)	(25,201,701)
Bulk purchases	31	(57,570,439)	(64,465,697)
Depreciation and amortisation	32	(28,176,906)	(28,701,181)
General Expenses	33	(26,575,956)	(25,681,310)
Contracted services	34	(14,045,455)	(11,935,592)
Repairs and maintenance	35	(12,526,749)	(16,269,723)
Remuneration of councillors	36	(7,584,314)	(7,464,421)
Finance costs	37	(2,613,757)	(2,549,708)
Transfers and Subsidies	38	(3,950,375)	(1,633,991)
Total expenditure		**(278,505,871)**	**(251,717,225)**
Operating surplus		**30,398,169**	**38,773,528**
Loss on disposal of assets and liabilities		-	(534,189)
Actuarial gains/losses	14	2,261,415	1,197,800
		2,261,415	**663,611**
Surplus for the year		**32,659,584**	**39,437,139**

* See Note 52 & 44

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	661,825,013	661,825,013
Adjustments		
Prior year adjustments	(2,282,322)	(2,282,322)
Balance at 01 July 2015 as restated*	**659,542,691**	**659,542,691**
Changes in net assets		
Surplus for the year	39,437,139	39,437,139
Total changes	39,437,139	39,437,139
Opening balance as previously reported	698,979,826	698,979,826
Restated* Balance at 01 July 2016 as restated*	**698,979,826**	**698,979,826**
Changes in net assets		
Surplus for the year	32,659,584	32,659,584
Total changes	32,659,584	32,659,584
Balance at 30 June 2017	**731,639,410**	**731,639,410**

Note(s)

* See Note 52 & 44

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		92,560,507	84,345,077
Grants		120,060,681	135,087,558
Interest income		8,425,979	7,230,664
Licensing and permits		23,899,078	22,592,382
Public contributions and donations		4,200,488	-
		249,146,733	249,255,681
Payments			
Employee costs		(76,873,567)	(72,518,746)
Suppliers		(72,380,433)	(66,144,380)
Bulk purchases		(59,512,246)	(56,331,218)
		(208,766,246)	(194,994,344)
Net cash flows from operating activities	40	**40,380,487**	**54,261,337**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(36,820,724)	(26,699,524)
Cash flows from financing activities			
Finance lease payments		(74,796)	(74,796)
Net increase/(decrease) in cash and cash equivalents		**3,484,967**	**27,487,017**
Cash and cash equivalents at the beginning of the year		82,886,810	55,399,794
Cash and cash equivalents at the end of the year	12	**86,371,777**	**82,886,811**

* See Note 52 & 44

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	104,712,817	-	**104,712,817**	95,102,776	**(9,610,041)**	*1*
Rental of facilities and equipment	27,248	-	**27,248**	19,710	**(7,538)**	*2*
Interest received (trading)	23,892,236	-	**23,892,236**	32,549,425	**8,657,189**	*3*
Licences and permits	9,531,652	-	**9,531,652**	5,694,999	**(3,836,653)**	*4*
Fair value adjustment	-	-	**-**	(32,098)	**(32,098)**	*5*
Public contributions and donations	-	-	**-**	4,200,488	**4,200,488**	*16*
Miscellaneous other revenue	2,782,267	-	**2,782,267**	2,215,239	**(567,028)**	*6*
Interest received - investment	3,985,575	-	**3,985,575**	5,342,507	**1,356,932**	*7*
Total revenue from exchange transactions	**144,931,795**	**-**	**144,931,795**	**145,093,046**	**161,251**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	42,838,854	-	**42,838,854**	36,068,131	**(6,770,723)**	*8*
Transfer revenue						
Government grants & subsidies	96,584,000	-	**96,584,000**	127,377,164	**30,793,164**	*9*
Fines, Penalties and Forfeits	49,516	-	**49,516**	365,699	**316,183**	*10*
Total revenue from non-exchange transactions	**139,472,370**	**-**	**139,472,370**	**163,810,994**	**24,338,624**	
Total revenue	**284,404,165**	**-**	**284,404,165**	**308,904,040**	**24,499,875**	
Expenditure						
Employee related costs	(77,115,265)	2,899,851	**(74,215,414)**	(69,387,109)	**4,828,305**	
Remuneration of councillors	(7,586,900)	(84,000)	**(7,670,900)**	(7,584,314)	**86,586**	
Depreciation and amortisation	(36,484,397)	1,508,743	**(34,975,654)**	(28,176,906)	**6,798,748**	*11*
Finance costs	-	-	**-**	(2,613,757)	**(2,613,757)**	*12*
Debt impairment	(66,398,252)	24,869,258	**(41,528,994)**	(56,074,811)	**(14,545,817)**	*13*
Repairs and maintenance	(12,535,127)	(2,349,706)	**(14,884,833)**	(12,526,749)	**2,358,084**	*14*
Bulk purchases	(54,868,024)	(4,114,719)	**(58,982,743)**	(57,570,439)	**1,412,304**	
Contracted Services	(11,622,401)	(3,567,965)	**(15,190,366)**	(14,045,455)	**1,144,911**	
Transfers and Subsidies	(9,969,151)	405,381	**(9,563,770)**	(3,950,375)	**5,613,395**	*15*
General Expenses	(28,163,739)	883,133	**(27,280,606)**	(26,575,956)	**704,650**	
Total expenditure	**(304,743,256)**	**20,449,976**	**(284,293,280)**	**(278,505,871)**	**5,787,409**	
Operating surplus	**(20,339,091)**	**20,449,976**	**110,885**	**30,398,169**	**30,287,284**	
Actuarial gains/losses	-	-	**-**	2,261,415	**2,261,415**	
Surplus before taxation	**(20,339,091)**	**20,449,976**	**110,885**	**32,659,584**	**32,548,699**	
Surplus for the year from continuing operations	**(20,339,091)**	**20,449,976**	**110,885**	**32,659,584**	**32,548,699**	
Capital budget	30,959,000	1,739,000	**32,698,000**	-	**(32,698,000)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**10,619,909**	**22,188,976**	**32,808,885**	**32,659,584**	**(149,301)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 52 Changes in accounting policy.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables, loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value has been made by management. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of economic factors such as inflation and interest rates.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On trade receivables from exchange and non-exchange transactions, an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the trade receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

The provision for doubtful debt is determined by taking into account the payment rate by exchange receivable (consumer debtor), indigent status, whether the consumer debtor has a credit balance at financial year end as well as whether the consumer debtor is government related or not.

Non-exchange receivables (Traffic fine debtors) have been impaired taking into account historical payment rates by these non-exchange receivables.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Traffic fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Non exchange receivables arising from traffic fines are measured at the best estimate based on expected inflows of economic benefits to the municipality.

Budget information

A difference of 10% or more between budget and actual amounts is regarded as material. All material differences (between budget and actual amounts) are explained in the notes to the annual financial statements.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Accounting Policies

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Unlimited
Buildings	Straight line	30 years
Furniture and fixtures	Straight line	7 - 10 years
Motor vehicles	Straight line	5 - 7 years
Office equipment	Straight line	3 - 7 years
IT equipment	Straight line	3 - 5 years
Infrastructure	Straight line	10 - 30 years
Bins and containers	Straight line	5 - 10 years
Specialised vehicles	Straight line	20 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

1.5 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

1.7 Intangible assets (continued)

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3 - 5 years

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

1.8 Heritage assets (continued)

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Accounting Policies

1.9 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

1.9 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.9 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

1.9 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.9 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Accounting Policies

1.10 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

1.12 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity’s informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity’s informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;

1.13 Employee benefits (continued)
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Long service awards

The municipality has an obligation to provide for long term service awards to all its employees who have been in service of the municipality for a certain period of time. According to the rules of the long service allowance scheme, which the municipality institutes and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 5,10,15,20,25,30,35,40 and 45 years of continued service.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liability. Actuarial gains and losses on the long service awards are recognised in the statement of financial performance.

The amount recognised as a liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Accounting Policies

1.13 Employee benefits (continued)

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If a municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.17 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

1.17 Revenue from non-exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

1.17 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Concessionary loans received

A concessionary loan is a loan granted to or received by an property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

Accounting Policies

1.21 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

Accounting Policies

1.24 Budget information (continued)

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.25 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

2. New standards and interpretations

2.1 Standards and interpretations not yet effective or relevant

The following GRAP standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality. The ASB's Directive 5 (2016 - 2017) sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The standards have been listed below with their respective **issue dates**. These standards will only become effective when a date is announced by the Minister of Finance.

• GRAP 18 - Segment Reporting	25 February 2011	Not expected to impact results but may result in additional disclosure
• GRAP 20 - Related Party Disclosure	26 July 2011	Not expected to impact results but may result in additional disclosure
• GRAP 32 - Service Concession Arrangements: Grantor	15 August 2013	Unlikely there will be a material impact
• GRAP 108 - Statutory Receivables	30 September 2013	Unlikely there will be a material impact
• GRAP 109 - Accounting by Principles and Agents	21 July 2015	Impact is currently being assessed
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	15 August 2013	Unlikely there will be a material impact

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

3. Investment property

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	125,711,437	(17,951,019)	107,760,418	125,711,437	(16,776,969)	108,934,468

Reconciliation of investment property - 2017

	Opening balance	**Depreciation**	**Total**
Investment property	108,934,468	(1,174,050)	107,760,418

Reconciliation of investment property - 2016

	Opening balance	**Depreciation**	**Total**
Investment property	110,108,517	(1,174,049)	108,934,468

	2017	2016
Fair value of investment properties	-	-

Pledged as security

None of the investment property has been pledged as security.

Details of property

Included in the above investment property is land to the value of R51,793,231.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

4. Property, plant and equipment

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	59,739,043	-	59,739,043	59,739,043	-	59,739,043
Buildings	145,723,955	(64,284,710)	81,439,245	145,505,973	(60,517,229)	84,988,744
Land - Landfill site	9,936,334	(4,413,524)	5,522,810	10,098,043	(3,470,309)	6,627,734
Work in progress	28,224,229	-	28,224,229	23,439,194	-	23,439,194
Infrastructure	935,673,518	(516,625,809)	419,047,709	908,557,064	(495,479,200)	413,077,864
Other property, plant and equipment	21,113,212	(6,653,351)	14,459,861	16,411,956	(5,839,915)	10,572,041
Leased Assets	173,699	(173,699)	-	173,699	(115,799)	57,900
Total	**1,200,583,990**	**(592,151,093)**	**608,432,897**	**1,163,924,972**	**(565,422,452)**	**598,502,520**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Total
Land	59,739,043	-	-	-	-	59,739,043
Buildings	84,988,744	-	-	212,532	(3,762,031)	81,439,245
Land - Landfill site	6,627,734	-	-	(161,709)	(943,215)	5,522,810
Work In Progress	23,439,194	36,069,998	(31,284,963)	-	-	28,224,229
Infrastructure	413,077,864	-	27,116,454	-	(21,146,609)	419,047,709
Other property plant and Equipment	10,572,041	4,701,257	-	-	(813,437)	14,459,861
Leased assets	57,900	-	-	-	(57,900)	-
	598,502,520	**40,771,255**	**(4,168,509)**	**50,823**	**(26,723,192)**	**608,432,897**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers and other movements	Depreciation	Impairment loss	Total
Land	59,820,856	-	(81,813)	-	-	-	59,739,04
Buildings	88,808,515	-	(57,694)	-	(3,762,077)	-	84,988,74
Land - Landfill site	8,148,289	-	-	(551,947)	(968,608)	-	6,627,73
Work In Progress	136,288	27,472,259	-	(4,169,353)	-	-	23,439,19
Infrastructure	429,071,187	-	-	4,169,353	(20,162,676)	-	413,077,86
Other property, plant and equipment	12,147,291	1,011,228	(579,582)	-	(801,387)	(1,205,509)	10,572,04
Leased asset	115,800	-	-	-	(57,900)	-	57,90
	598,248,226	**28,483,487**	**(719,089)**	**(551,947)**	**(25,752,648)**	**(1,205,509)**	**598,502,52**

Pledged as security

None of the investment property has been pledged as security.

Depreciation rates

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

4. Property, plant and equipment (continued)

Land	Indefinite	Indefinite
Buildings	Straight line	30 Years
Furniture and fixtures	Straight line	7 - 10 Years
Motor vehicles	Straight line	5 Years
Office equipment	Straight line	3 - 7 Years
IT equipment	Straight line	3 - 5 Years
Infrastructure	Straight line	10 - 30 Years
Community	Straight line	30 Years
Bins and containers	Straight line	5 - 10 Years
Other property, plant and equipment	Straight line	3 - 7 Years
Specialised vehicles	Straight line	20 Years
Leased Assets	Straight line	2 - 5 Years

Assets subject to finance lease (Net carrying amount)

	2017	2016
Leased Assets	-	57,900

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance	23,434,721	23,434,721
Additions/capital expenditure	34,335,627	34,335,627
Transferred to completed items	(24,681,097)	(24,681,097)
	33,089,251	**33,089,251**

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Total
Opening balance	131,814	131,814
Additions/capital expenditure	27,472,260	27,472,260
Transferred to completed items	(4,169,353)	(4,169,353)
	23,434,721	**23,434,721**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality that stipulates the details of work in progress included within infrastructure.

5. Intangible assets

	2017			2016		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	1,728,146	(1,728,146)	-	1,728,146	(1,453,930)	274,216

Reconciliation of intangible assets - 2017

	Opening balance	**Amortisation**	**Total**
Computer software, other	274,216	(274,216)	-

Reconciliation of intangible assets - 2016

	Opening balance	**Amortisation**	**Total**
Computer software, other	850,265	(576,049)	274,216

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

6. Heritage assets

	2017			2016		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heritage assets	3,485,999	-	3,485,999	3,485,999	-	3,485,999

Reconciliation of heritage assets 2017

	Opening balance	**Total**
Heritage assets	3,485,999	3,485,999

Reconciliation of heritage assets 2016

	Opening balance	**Total**
Heritage assets	3,485,999	3,485,999

Pledged as security

None of the heritage assets has been pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

7. Other financial assets

Designated at fair value		
Unit trusts	707,199	739,297
Terms and conditions		
Current assets		
Designated at fair value	707,199	739,297

Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Class 1 The valuation of the shares is based on the fair value of the unit price and number of shares obtained as at 30 June 2017. The number of shares held with Old Mutual is 1,824.6574 at a value of R387.58 per share.	707,199	739,297

8. Inventories

Consumable stores	2,487,385	829,510
Water	207,560	156,332
	2,694,945	**985,842**
Carrying value of inventories carried at fair value less costs to sell	882,433	4,104
Inventories recognised as an expense during the year	1,171,184	561,157

The consumables stores balance disclosed above of R2,694,945 is after performing net realisable value write down on consumable stores which amounted to R970,237.

9. Receivables from exchange transactions

Other debtors	2,484,294	2,039,818
Debtors for sale of stands	1,208,554	1,208,554
	3,692,848	**3,248,372**

Debtor for sale of stands

The debtor for sale of stands receivable represents proceeds owing from purchasers for property owned by the municipality that has been sold.

10. Receivables from non-exchange transactions

Traffic fines	164,764	119,805

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	1,366,080	1,075,230

Receivables from non-exchange transactions consists of traffic fines receivable which have been accounted for in accordance with iGRAP 1 - Applying the probability test on initial recognition of revenue.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

10. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions impaired

As of 30 June 2017, receivables from non-exchange transactions of R 245,891 (2016: R 256,809) were impaired and provided for.

The amount of the provision was R 1,201,316 as at 30 June 2017 (2016: R 955,425).

During the 2017 financial year 18% of traffic fines issued were paid, whilst 13% of traffic fines issued were paid during the 2016 financial year.

11. Consumer debtors

	2017	2016
Gross balances		
Rates	56,354,703	46,464,195
Electricity	23,607,212	18,736,149
Water	87,927,931	75,228,799
Sewerage	42,315,838	35,299,983
Refuse	23,152,474	19,047,510
Other receivables	146,445,780	115,694,382
	379,803,938	**310,471,018**
Less: Allowance for impairment		
Rates	(30,630,275)	(23,583,681)
Electricity	(12,036,498)	(10,771,180)
Water	(69,873,757)	(57,991,691)
Sewerage	(36,407,771)	(29,882,050)
Refuse	(19,672,276)	(15,910,665)
Other receivables	(122,303,326)	(93,903,322)
	(290,923,903)	**(232,042,589)**
Net balance		
Rates	25,724,428	22,880,514
Electricity	11,570,714	7,964,969
Water	18,054,174	17,237,108
Sewerage	5,908,067	5,417,933
Refuse	3,480,198	3,136,845
Other receivables	24,142,454	21,791,060
	88,880,035	**78,428,429**
Included in above is receivables from exchange transactions		
Electricity	11,570,714	7,964,969
Water	18,054,174	17,237,108
Sewerage	5,908,067	5,417,933
Refuse	3,480,198	3,136,845
Other	25,559,439	21,791,060
	64,572,592	**55,547,915**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	25,724,428	22,880,514
Net balance	**90,297,020**	**78,428,429**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

11. Consumer debtors (continued)

Rates		
Current (0 -30 days)	2,097,258	1,799,780
31 - 60 days	1,366,291	1,347,960
61 - 90 days	1,287,867	1,357,465
91 - 120 days	1,209,889	1,075,507
121 - 180 days	7,192,335	6,042,509
> 180 days	43,201,054	34,840,974
	56,354,694	**46,464,195**

Electricity		
Current (0 -30 days)	5,475,353	3,876,470
31 - 60 days	646,275	1,147,118
61 - 90 days	848,270	492,414
91 - 120 days	502,504	372,568
121 - 180 days	3,892,039	5,312,986
> 180 days	12,242,771	7,534,592
	23,607,212	**18,736,148**

Water		
Current (0 -30 days)	3,825,505	4,168,142
31 - 60 days	1,779,079	1,428,281
61 - 90 days	2,139,029	2,042,957
91 - 120 days	1,431,134	1,594,509
121 - 180 days	9,813,598	10,065,673
> 180 days	68,939,586	55,929,234
	87,927,931	**75,228,796**

Sewerage		
Current (0 -30 days)	1,039,651	958,567
31 - 60 days	850,351	804,097
61 - 90 days	803,948	742,848
91 - 120 days	767,450	717,265
121 - 180 days	5,073,201	4,478,534
> 180 days	33,781,287	27,598,671
	42,315,888	**35,299,982**

Refuse		
Current (0 -30 days)	642,624	565,236
31 - 60 days	498,537	466,194
61 - 90 days	469,056	434,385
91 - 120 days	456,833	420,094
121 - 180 days	2,966,041	2,625,059
> 180 days	18,119,383	14,536,544
	23,152,474	**19,047,512**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

11. Consumer debtors (continued)

Other receivables		
Current (0 -30 days)	3,783,601	3,010,785
31 - 60 days	3,557,733	3,276,741
61 - 90 days	3,509,480	3,061,513
91 - 120 days	3,442,092	2,970,023
121 - 180 days	22,309,622	18,314,655
> 180 days	111,260,237	85,060,664
	147,862,765	**115,694,381**

Consumer debtors (Residential)		
Current (0 -30 days)	12,522,499	10,681,489
31 - 60 days	6,715,584	6,886,277
61 - 90 days	7,352,898	6,372,324
91 - 120 days	5,950,145	5,855,570
121 - 180 days	41,118,933	39,180,702
> 180 days	237,682,016	188,964,091
Allowance for impairment	(261,702,882)	(207,528,067)
	49,639,193	**50,412,386**

Industrial / Commercial / Agriculture		
Current (0 -30 days)	3,550,231	2,690,500
31 - 60 days	1,437,449	1,130,275
61 - 90 days	1,167,462	1,160,102
91 - 120 days	1,109,220	1,029,676
121 - 180 days	6,635,381	6,022,418
> 180 days	25,135,119	19,152,623
Allowance for impairment	(28,419,222)	(22,445,158)
	10,615,640	**8,740,436**

National and Provincial Government		
Current (0 -30 days)	1,504,902	986,990
31 - 60 days	550,600	457,245
61 - 90 days	537,546	599,318
91 - 120 days	759,608	270,417
121 - 180 days	3,533,424	1,662,013
> 180 days	23,957,906	17,369,013
Allowance for impairment	(801,799)	(2,069,388)
	30,042,187	**19,275,608**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(232,042,589)	(205,932,690)
Contributions to allowance	(58,881,314)	(26,109,899)
	(290,923,903)	**(232,042,589)**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

11. Consumer debtors (continued)

Included in the **OTHER RECEIVABLES** amount of R147,862,765 (**2016**: R115,694,382) are the following ***material classes of transactions*** which have been split as follows per the detailed MUNSOFT age analysis(smaller classes of transactions have been combined into "other movements" line item:

Agreements (Debt arrangements)	1,468,545	2,804,465
Capital	4,903,643	5,066,858
Interest	103,830,623	75,111,689
VAT	29,597,295	25,407,381
Sundries	10,200,892	10,028,454
Other movements	340,125	275,273
Reversal of internally generated accounts	(2,478,359)	(1,632,610)
TOTAL	147,862,765	115,694,382

Calculation of debt impairment

For the 30 June 2017 and 30 June 2016 financial years the debt impairment calculation has been performed in accordance with the council approved "**provision for doubtful debt policy**".The policy entails calculating impairment on debt 180 days and older by applying the "non-payment"ratio for each respective customer whilst taking cognisance of credit balances within receivables as well as in-active accounts and approved indigents.

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	76,805,035	73,323,710
Short-term deposits	9,566,739	9,563,100
	86,371,774	**82,886,810**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	**30 June 2016**	**30 June 2015**	**30 June 2017**	**30 June 2016**	**30 June 2015**
FIRST NATIONAL BANK - Primary Account - 5418-0010-025	79,399,000	84,807,402	8,725,487	76,805,035	73,323,711	5,677,833
FIRST NATIONAL BANK - Money Market - 7441-8206-027	-	-	20,544,402	-	-	20,544,402
FIRST NATIONAL BANK - MIG Account - 7438-8117-704	7,991,242	7,991,242	47,906	7,991,242	7,991,242	47,906
FIRST NATIONAL BANK - FMG Account - 7438-8118-827	-	-	1,434,178	-	-	1,434,178
FIRST NATIONAL BANK - Money Market - 6231-5391-269	-	-	(2,393)	-	-	(1,446)
FIRST NATIONAL BANK - Account Type - 6209-2639-875	1,498,910	1,499,708	7,499,769	1,498,910	1,499,708	7,499,769
STANDARD BANK - Account Type - 038-749-688	76,587	72,149	20,197,151	76,587	72,149	20,197,151
Total	**88,965,739**	**94,370,501**	**58,446,500**	**86,371,774**	**82,886,810**	**55,399,793**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

13. Provision for water supply

Department of Water and Sanitation		
Seme Municipality (Acc number - 60000445)	57,811,043	47,466,678
MP304 - Seme Local Municipality (Acc number - 60000963)	22,607,280	32,762,739
MP304 - Seme Local Municipality (Acc number - 60000473)	1,906,284	4,036,798
	82,324,607	**84,266,215**

The provision for water supply relates to invoices owing to the Department of Water and Sanitation. Three separate accounts are held with the Department of which have been detailed as above.

The amount owing has been recognised as a provision under GRAP 19 and not a payable from exchange transaction as per GRAP 10 as the municipality is currently disputing the amount owing which results in uncertainty with regards to the owing to the Department.

14. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality provices certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired member of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method. The liability for in-service members is accrued over their expected working lifetimes. The expected remaining working-lifetime of eligible employees is 19.4 years.

At the valuation date of 30 June 2017, membership of health care arrangements entitled to a post-employment medical aid subsidy was 135 in-service members (employees) and 20 continuation members (retirees and widows).

Post retirement gratuity plan

The municipality has an obligation in respect of the entitlement of employees to long service awards (LSA). The LSA is not a funded arrangement, i.e. no separate assets have been set aside to meet this liability.

There are 244 employees that are currently entitled to Long Service Awards. The expected remaining working-lifetime of eligible employees is 18.5 years.

The Municipality offers employees LSA for every five years of service completed, to 45 years of service, inclusive.

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(20,799,199)	(20,275,000)
Present value of the long service award obligation - wholly funded	(3,722,919)	(3,227,664)
Decrease / (Increase) in defined benefit obligation	475,411	(524,199)
Increase in long service award obligation	(385,112)	(495,255)
	(24,431,819)	**(24,522,118)**
Non-current liabilities	(23,092,224)	(23,365,407)
Current liabilities	(1,339,595)	(1,156,711)
	(24,431,819)	**(24,522,118)**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

14. Employee benefit obligations (continued)

Changes in the present value of the DEFINED BENEFIT OBLIGATION are as follows:

Opening balance	(20,799,199)	(20,275,000)
Service cost	(745,306)	(571,000)
Interest cost	(1,912,689)	(1,859,000)
Benefits paid	781,404	628,000
Actuarial gain	2,352,002	1,277,801
Net expense recognised in the statement of financial performance	90,299	-
	(20,233,489)	**(20,799,199)**

Net expense recognised in the statement of financial performance

Current service cost - defined benefit plan	(745,306)	(571,000)
Current service cost - long service award	(367,493)	(351,775)
Interest cost - defined benefit plan	(1,912,689)	(1,859,000)
Interest cost - long service award	(302,339)	(292,708)
Actuarial gains - defined benefit plan	2,352,002	1,277,801
Actuarial losses - long service awards	(90,587)	(80,001)
Benefits paid - defined benefit plan	781,404	628,000
Benefits vesting - long service award	375,307	229,229
Net income / (expense) recognised in the statement of financial performance	**90,299**	**(1,019,454)**

Calculation of actuarial gains and losses

Actuarial gains - defined benefit plan	2,352,002	1,277,801
Actuarial losses - long service awards	(90,587)	(80,001)
	2,261,415	**1,197,800**

Changes in the present value of the LONG SERVICE AWARD obligation are as follows:

Opening balance	(3,722,919)	(3,227,664)
Current service cost	(367,493)	(351,775)
Interest cost	(302,339)	(292,708)
Expected benefits vesting	375,307	229,229
Actuarial loss	(90,587)	(80,001)
	(4,108,031)	**(3,722,919)**

The municipality expects to contribute R 730,751 to its defined benefit plans in the following financial year [medical aid expected contributions].

Figures in Rand	2017	2016

14. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rate (D) - Defined benefit plan	9.66 %	9.37 %
Discount rate (D) - Long Service Awards	8.43 %	8.54 %
General salary inflation (long term)	6.25 %	7.20 %
Health care cost inflation	7.94 %	8.43 %
Net discount rate - health care cost inflation	1.59 %	0.86 %
Net effective discount rate - long service award	2.05 %	1.25 %

DEFINED BENEFIT PLAN - Explanation of assumptions used

Two of the most important financial variables used in the GRAP 25 valuation is the net discount rate and the medical inflation rate.

The medical inflation rate was set with reference to the past relationship between CPI and medical aid contribution rate inflation South Africa has experienced significant increases in health care cost inflation in recent years.

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

It is difficult to predict future investment returns and health care cost infation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the valuation date for the period which the obligations are to be settled.

Discount rate

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current rates along the yield curve.

Consequently, a discount rate of 9.66% per annum has been used. The corresponding index-linked yield at this term is 2.56%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Johannesburg Stock Exchange after the market close on 30 June 2017.

Health Care Cost Inflation Rate

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs. Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 7.94% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.44%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 1.59% which derives from ((1 + 9.66%)/(1 + 7.94%))-1.

The next contribution increase was assumed to occur with effect from 1 January 2018.

Maximum Subsidy Inflation Rate

This assumption is required to reflect estimated future changes in the maximum amount to which subisidies are limited.

This maximum amount is set at R3,942.23 for the year ending 30 June 2018.

The future salary inflation assumpation of 7.44%, was set to be 1% above expected inflation. Thus, a maximum subsidy inflation assumption of 5.58% was assumed.

Figures in Rand	2017	2016

14. Employee benefit obligations (continued)

LONG SERVICE AWARDS - Explanation of assumptions used

Discount rate

As stipulated above, GRAP 25 requires that the discount rate used should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. Consequently, a discount rate of 8.43% per annum has been used.

The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.43% is then derived as the liability-weighted average of the yields derived in the first step The corresponding liability-weighted index-linked yield is 2.55%.

These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Johannesburg Stock Exchange after the market close on 30 June 2017. The liability-weighted average term of the total liability is 6.75 years.

Salary inflation rate

This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.

A general salary inflation rate of 6.25% per annum over the expected term of the liability has been assumed, which is 1% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.05%.

It has been assumed that the next salary increase will take place on 1 July 2018.

Average retirement age

The normal retirement age is 65. It has been assumed that employees will retire at age 63 on average, which then implicitly allows for expected rates of ill-health, early and late retirement.

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects (R'000):

	One percentage point increase	**One percentage point decrease**
Effect on the aggregate of the service cost and interest cost	21,842	18,446

Amounts for the current and previous four years are as follows (R '000):

	2017	**2016**	**2015**	**2014**	**2013**
Defined benefit obligation	20,324	20,799	20,275	19,306	18,380
Long service awards	4,108	3,723	-	-	-
Experience adj on defined benefit plan (gains)	(584)	(1,142)	(784)	-	-
Experience adj on long service award - loss	299	-	-	-	-

Figures in Rand	2017	2016

15. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Unwinding of discount	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	19,822,329	391,131	(987,860)	655,633	19,881,233

Reconciliation of provisions - 2016

	Opening Balance	Unwinding of discount	Change in discount factor	Change in estimate	Total
Environmental rehabilitation	20,558,029	379,705	(126,007)	(989,398)	19,822,329

	2017	2016
Non-current liability	19,262,926	19,431,198
Current liability	618,307	391,131
	19,881,233	**19,822,329**

Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. The discount rate was deduced from the GOVI longbond. The annualised rate as at 30 June 2017 was 9.42%. The consumer price inflation of 6.12% was also factored into the discount rate which resulted in a net discount rate of 1.97%.

The environmental rehabilitation provision relates to four landfill sites namely Volksrust, Amersfoort, Wakkerstroom and Perdekop. For the Volksrust and Amersfoort sites, the number of years until closure is three and twelve years respectively, whilst the Wakkerstroom and Perdekop landfill sites have been closed.

16. Payables from exchange transactions

	2017	2016
Trade payables	10,153,495	3,126,245
Retentions	3,429,081	1,998,076
Accrued leave pay	4,252,619	4,427,759
Other accrued expenses	3,151,449	12,879,542
Other payables	14,493,700	14,395,616
Staff Bonus Accrual	1,510,096	1,529,090
	36,990,440	**38,356,328**

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2017	2016
Municipal Infrastructure Grant	-	6,962,756
Expanded Public Works Programme	15,877	17,345
Financial Management Grant	-	66,142
Municipal Systems Information Grant	-	452,752
Skills Development Grant	320,468	264,761
Intergrated National Electricification Programme	133,954	-
Disaster Management Grant	179,026	202,052
	649,325	**7,965,808**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

17. Unspent conditional grants and receipts (continued)

The unspent portion of the municipal infrastructure grant is held in a 7 day notice ring-fenced investment with FNB until utilised.

18. VAT payable

VAT payable	4,604,201	1,992,613

19. Consumer deposits

Water and Electricity	1,663,702	1,626,975

Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated.

In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding amount.

20. Finance lease obligation

Minimum lease payments due		
- within one year	6,233	74,796
- in second to fifth year inclusive	-	6,233
	6,233	81,029
less: future finance charges	(89)	(7,687)
Present value of minimum lease payments	**6,144**	**73,342**

Present value of minimum lease payments due		
- within one year	6,144	67,198
- in second to fifth year inclusive	-	6,144
	6,144	**73,342**

The municipality entered into a 36 month lease contract with Nashua which had a commencement date of 1 August 2014. The legal nature of the lease agreement is an operating lease but substance over form prevails in the context of GRAP 13. The lease agreement meets the requirements of a finance lease and has been accounted for as such in accordance with GRAP 13.

The average lease term is three years. The prime interest rate of 9.25% was used to perform the discounting of the present value of future minimum lease payments.

The lease arrangement with Nashua has fixed repayments with the last payment being made on the 1st of July 2017.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

	2017	2016 Restated*

21. Government grants and subsidies

Operating grants		
Equitable Share	91,979,994	91,201,000
Financial Management Grant	1,625,000	1,533,858
Municipal Systems Improvement Grant	-	912,540
Expanded Public Works Programme	1,686,123	2,624,655
	95,291,117	**96,272,053**
Capital grants		
Municipal Infrastructure Grant	25,220,000	18,682,244
Integrated National Electrification Grant	6,866,047	13,150,454
Disaster Management Grant	-	1,004,029
	32,086,047	**32,836,727**
	127,377,164	**129,108,780**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.In terms of the allocation made by National Treasury the funds are also utilised to enable the municipality to execute its functions as the local authority. No funds have been withheld.

All registered indigents receive a monthly subsidy based on the monthly billing, towards the consumer's account, which subsidy is determined annually by council. This subsidy is funded from the grant.

Municipal Infrastructure Grant

Balance unspent at beginning of year	6,962,756	-
Current-year receipts	25,220,000	25,645,000
Conditions met - transferred to revenue	(25,220,000)	(18,682,244)
Repayment of unspent conditional grant	(6,962,756)	-
	-	**6,962,756**

Conditions still to be met - remain liabilities (see note 17).

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of upgrading of poor households, micro enterprises, social institutions and to provide for the rehabilitation and upgrading of municipal infrastructure.

Expanded Public Works Programme Grant

Balance unspent at beginning of year	17,345	-
Current-year receipts	1,702,000	2,642,000
Conditions met - transferred to revenue	(1,686,123)	(2,624,655)
Repayment of unspent conditional grant	(17,345)	-
	15,877	**17,345**

Conditions still to be met - remain liabilities (see note 17).

The expanded public works programme grant was allocated to the municipality for environmental projects.

Finance Management Grant

Notes to the Annual Financial Statements

	2017	2016 Restated*

21. Government grants and subsidies (continued)

Balance unspent at beginning of year	66,142	-
Current-year receipts	1,625,000	1,600,000
Conditions met - transferred to revenue	(1,625,000)	(1,533,858)
Repayment of unspent conditional grant	(66,142)	-
	-	**66,142**

Conditions still to be met - remain liabilities (see note 17).

The financial management grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003.

Municipal Systems Improvement Grant

Balance unspent at beginning of year	452,752	435,292
Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(912,540)
Repayment of unspent conditional grant	(452,752)	-
	-	**452,752**

Conditions still to be met - remain liabilities (see note 17).

The municipal systems improvement grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems.

Skills Development Grant

Balance unspent at beginning of year	264,761	343,203
Current-year receipts	129,617	614,808
Conditions met - transferred to revenue	(73,910)	(693,250)
	320,468	**264,761**

Conditions still to be met - remain liabilities (see note 17).

The skills development grant has been allocated to the municipality to further develop specific skillsets of staff members within the municipality.

Intergrated National Electrification Programme

Balance unspent at beginning of year	-	2,454
Current-year receipts	7,000,000	13,148,000
Conditions met - transferred to revenue	(6,866,046)	(13,150,454)
	133,954	**-**

Conditions still to be met - remain liabilities (see note 17).

The integrated national electrification programme grant has been provided to the municipality for purposes of providing new households with access to electricity.

Disaster Management Grant

Balance unspent at beginning of year	202,052	1,206,081
Conditions met - transferred to revenue	-	(1,004,029)

* See Note 52 & 44

Notes to the Annual Financial Statements

	2017	2016 Restated*
21. Government grants and subsidies (continued)		
	202,052	**202,052**

Conditions still to be met - remain liabilities (see note 17).

The disaster management grant has been provided to the municipality for purposes of reconstructing and rehabilitation of municipal infrastructure that was damaged during the March 2014 flooding. Specific projects being undertaken relates to upgrading of the community access bridge for Wakkerstroom (ward 5), re-gravelling and grading of inner roads in Volksrust as well as paving and filling of potholes in Volksrust and Perdekop.

22. Service charges

	2017	2016 Restated*
Sale of electricity	47,946,628	43,964,102
Sale of water	26,034,527	26,641,289
Solid waste	8,035,793	7,117,376
Sewerage and sanitation charges	13,085,827	12,148,987
	95,102,775	**89,871,754**

The amounts disclosed above for revenue from service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

The service charges for both the 2016 and 2017 financial years have been disclosed after factoring in the total indigent subsidy expense of R3,435,785 for year ending 30 June 2017 and R4,293,745 for year ending 30 June 2016.

For the year ending 30 June 2016 the monthly indigent subsidy received by each registered indigent household was R210 whilst for the year ending 30 June 2017 it was R240 per month.

Notes to the Annual Financial Statements

	2017	2016 Restated*

23. Property rates

Rates billed

Residential	11,486,421	19,505,309
Commercial	17,156,396	6,831,955
State	10,456	6,794
Farmers	9,392,791	8,526,814
Less: Income forgone	(1,977,933)	(1,811,089)
	36,068,131	**33,059,783**

Valuations

Agricultural	4,189,660,830	4,189,970,830
Residential	1,638,747,100	1,638,477,700
State	466,362,400	466,362,400
Used for multiple purposes	454,331,300	454,331,300
Commercial	303,394,300	303,394,400
Municipal	131,635,300	131,635,300
Vacant	110,261,950	110,139,950
Mining purposes	96,694,000	96,694,000
Place of worship	49,997,100	49,997,100
Institutional	47,402,500	47,402,500
Industrial	8,055,100	8,055,100
Public Service Infrastructure	3,792,680	3,792,680
Private roads	1,492,800	1,492,800
Less: Income forgone	(622,007,004)	(622,007,004)
	6,879,820,356	**6,879,739,056**

General Valuations (GV) on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2018.

24. Interest received (trading)

Interest charged on trade and other receivables	32,549,425	24,130,058

The interest received (trading) represents interest levied on consumer debtor accounts who are in arrear with payments due to the municipality.

Notes to the Annual Financial Statements

	2017	2016 Restated*

25. Licensing and permits

Licences and permits	5,694,999	5,547,900

The municipality has entered into an agreement with the Mpumalanga Department of Safety, Security and Liason ('the Department"). The agreement is entered into every five years, signed within three months of the new term of office for Local Government.

In terms of the agreement the Department is responsible for registration, licensing, and testing functions in terms of applicable national and provincial road traffic legislation. In order to provide greater access to clients throughout the Province, the Department transferred specified registration, licensing and testing functions to appropriately identified agents, who process these functions for and on behalf of the Department.

As a result of the abovementioned agreement the municipality acts as an agent on behalf of the department. The agent is thus entitled to 20% (incl VAT) of the total collected fees in terms of clause 6.2 in respect of motor vehicle registration and licensing fees, as specified in the relevant schedules contained in the applicable national and provincial road traffic legislation.

26. Investment revenue

Interest revenue		
Bank	5,342,507	5,633,780

27. Public contributions and donations

During the financial year the municipality received donations to the value of R4,200,488 from the Department of water and sanitation for purposes of refurbishing the waste water treatment works located in Amersfoort.

28. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	19,710	19,435

Notes to the Annual Financial Statements

	2017	2016 Restated*

29. Employee related costs

Basic	43,779,103	45,139,511
Bonus	3,170,661	3,202,603
Medical aid - company contributions	3,641,347	3,613,423
UIF	425,285	416,498
SDL	605,383	611,171
Leave pay provision charge	621,976	(1,640,994)
Barganing council levy	24,159	24,617
Defined contribution plans	9,243,382	9,438,075
Overtime payments	3,416,718	2,804,497
Housing benefits and allowances	229,278	279,630
Locomotion allowance	2,230,894	2,098,553
Standby allowance	1,998,923	1,826,317
	69,387,109	**67,813,901**

Remuneration of Municipal Manager

Annual Remuneration	750,803	889,792
Car Allowance	358,472	119,491
Contributions to UIF, Medical and Pension Funds	159,157	187,409
	1,268,432	**1,196,692**

Remuneration of Chief Finance Officer

Annual Remuneration	-	377,721
Car Allowance	-	82,500
Contributions to UIF, Medical and Pension Funds	-	94,554
Other	-	134,031
	-	**688,806**

The position of Chief Financial Officer was vacant during the financial year. An acting Chief Financial Officer was appointed during the year under review. The position of permanent CFO was filled on the 10th of August 2017.

Remuneration of the Technical Services

Annual Remuneration	677,911	684,184
Car Allowance	99,000	98,000
Contributions to UIF, Medical and Pension Funds	154,945	162,584
	931,856	**944,768**

Remuneration of the Community Services

Annual Remuneration	695,604	661,585
Car Allowance	77,000	118,500
Contributions to UIF, Medical and Pension Funds	159,253	172,467
Other	-	6,530
	931,857	**959,082**

Remuneration of the Corporate Services

Annual Remuneration	587,124	714,071

* See Note 52 & 44

Notes to the Annual Financial Statements

	2017	2016 Restated*

29. Employee related costs (continued)

Car Allowance	98,750	84,000
Contributions to UIF, Medical and Pension Funds	153,852	161,011
Other	7,420	-
	847,146	**959,082**

30. Debt impairment

Debt impairment	56,074,811	25,201,701

The debt impairment represents the charge to the Statement of Financial Performance due to the increase in provision for debt impairment which has been calculated with reference to non-payment rates on an individual customer basis.

31. Bulk purchases

Electricity	49,247,731	44,750,582
Water	8,322,708	19,715,115
	57,570,439	**64,465,697**

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers.

Electricity is purchased in bulk on a monthly basis from Eskom.

Water is purchased from the Department of water and sanitation in addition to natural water resources being used from local dams.

32. Depreciation and amortisation

Property, plant and equipment	25,785,426	25,982,476
Investment property	1,174,050	1,174,049
Intangible assets	274,216	576,048
Land - Landfill site	943,215	968,608
	28,176,907	**28,701,181**

Notes to the Annual Financial Statements

	2017	2016 Restated*

33. General expenses

Advertising	-	8,325
Auditors remuneration	4,224,150	3,789,220
Bank charges	412,310	489,152
Cleaning	72,865	62,085
Commission paid	902,638	577,471
Consulting and professional fees	665,394	614,359
Entertainment	55,530	69,720
Insurance	1,443,093	1,305,230
Medical aid contribution	752,098	692,281
Postage and courier	233,038	397,167
Printing and stationery	474,381	518,098
Subscriptions and membership fees	911,828	836,856
Telephone and fax	1,146,446	1,087,990
Training	111,917	335,052
Travel - local	1,323,102	1,071,851
Bursaries	16,795	28,367
Departmental consumption	(40,359)	505,912
Consumable stores write down	1,952,045	581,155
Ward council members	936,825	1,218,000
Other expenses	10,981,860	11,493,019
	26,575,956	**25,681,310**

In line with GRAP 12 paragraph 45 the inventory write downs on consumable stores of R1,952,045 has been recognised as an expense and disclosed separately within general expenses.

34. Contracted services

Security Services	2,470,199	3,571,491
Cleaning and Chemicals Services	4,770,001	4,277,750
Other Contractors	6,805,255	4,086,351
	14,045,455	**11,935,592**

The **security services** relates to Rossec Security services and G4S Cash Solutions.

The **cleaning and chemicals services contract** concluded between the municipality and Pharmatrend Project CC is for the supply and delivery of chemicals for water and waste water purification to Dr Pixley Ka Isaka Seme Local Municipality's Water and Waste Water Treatment works. The supply and delivery of the chemicals for water and waste water purification plant is on a demand basis.

The "**other contractors**" expense primarily relates to financial services and information technology (IT) contracted services rendered to the municipality.

35. Repairs and maintenance

Breakdown of repairs and maintenance expenses by type		
Purchasing materials	6,260,372	-
Paid to service providers	5,109,808	-
Parts issued from Consumable stores	1,171,184	-
Other movements	(14,615)	-
	12,526,749	**16,269,723**

Notes to the Annual Financial Statements

	2017	2016 Restated*

35. Repairs and maintenance (continued)

In line with GRAP 17.88 and GRAP 17.89 the repairs and maintenance has been disclosed by cost type. In line with GRAP 17 paragraph 100 the repairs and maintenance by expense type shall be disclosed prospectively. Thus, the comparative figure for repairs and maintenance has not been broken down by expense type.

36. Remuneration of councillors

	2017	2016 Restated*
Executive Mayor	775,643	782,480
Mayoral Committee Members	1,077,121	1,185,956
Speaker	557,323	630,877
Councillors	5,174,227	4,865,107
	7,584,314	**7,464,420**

Upper limits of SALGA

The remuneration of councillors is based on Government Gazette 40519, dated 21 December 2016 and is within the upper limits of salaries, allowances and benefits as determined by SALGA..

37. Finance costs

	2017	2016 Restated*
Finance leases	7,598	18,295
GRAP 19 Interest on landfill rehabilitation provision	391,131	379,705
GRAP 25 Interest cost on medical aid and long service awards	2,215,028	2,151,708
	2,613,757	**2,549,708**

38. Grants and subsidies paid

	2017	2016 Restated*
Other subsidies		
VIP Toilets for wards 9,10,11 and farms	3,950,375	1,633,991

The transfer and subsidy expense relates to toilets constructed on the premises of residents living in wards 9,10,11 as well as farms. These toilets are not regarded as an asset of the municipality as the residents of these wards retain control over the use and economic benefits arising from the use of these toilets.

39. Auditors' remuneration

	2017	2016 Restated*
Fees	4,224,150	3,789,220

* See Note 52 & 44

Notes to the Annual Financial Statements

	2017	2016 Restated*

40. Cash generated from operations

	2017	2016 Restated*
Surplus	32,659,584	39,437,139
Adjustments for:		
Depreciation and amortisation	28,176,906	28,701,181
Loss on disposal of assets	-	534,189
Reduction in landfill site closure costs	(170,518)	(563,458)
Traffic fines	(290,850)	(299,650)
Debt impairment	56,074,811	25,201,701
Consumable stores write downs	1,952,045	581,155
Actuarial gains	(2,261,415)	(1,197,800)
Leave accrual charge	97,856	2,057,495
Interest	(29,935,668)	(21,580,344)
Bulk purchases	(1,941,808)	8,134,479
Fair value adjustment on other financial assets	32,098	(22,810)
Changes in working capital:		
Inventories	(3,661,148)	32,845
Other receivables	(444,476)	(347,913)
Consumer debtors	(33,976,992)	(39,911,036)
Other receivables from non-exchange transactions	245,891	256,809
Payables from exchange transactions	(1,463,749)	2,912,086
VAT	2,611,588	4,293,089
Employee benefit obligation	(43,912)	65,546
Unspent conditional grants and receipts	(7,316,483)	5,978,776
Consumer deposits	36,727	(2,142)
	40,380,487	**54,261,337**

41. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At fair value	At amortised cost	Total
Other financial assets (Old Mutual Investment)	707,199	-	707,199
Receivables from exchange transactions	-	3,692,848	3,692,848
Other receivables from non-exchange transactions	-	164,764	164,764
Consumer debtors	-	88,880,035	88,880,035
Cash and cash equivalents	-	86,371,774	86,371,774
	707,199	**179,109,421**	**179,816,620**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	30,008,001	30,008,001
Consumer deposits	1,663,702	1,663,702
	31,671,703	**31,671,703**

2016

* See Note 52 & 44

41. Financial instruments disclosure (continued)

Financial assets

	At fair value	At amortised cost	Total
Other financial assets (Old Mutual Investment)	739,297	-	739,297
Receivables from exchange transactions	-	3,248,372	3,248,372
Other receivables from non-exchange transactions	-	119,805	119,805
Consumer debtors	-	78,428,429	78,428,429
Cash and cash equivalents	-	82,886,810	82,886,810
	739,297	**164,683,416**	**165,422,713**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	38,209,097	38,209,097
Consumer deposits	1,626,975	1,626,975
	39,836,072	**39,836,072**

Notes to the Annual Financial Statements

	2017	2016 Restated*

42. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	20,650,281	7,785,611
• Property, plant and equipment - Movable assets	-	4,737,990
	20,650,281	**12,523,601**

Total capital commitments		
Already contracted for but not provided for	20,650,281	12,523,601

Authorised operational expenditure

Already contracted for but not provided for		
• Operating	9,890,862	17,607,509

Total operational commitments		
Already contracted for but not provided for	9,890,862	17,607,509

Total commitments

Total commitments		
Authorised capital expenditure	20,650,281	12,523,601
Authorised operational expenditure	9,890,862	17,607,509
	30,541,143	**30,131,110**

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	4,104	4,104

Operating lease payments represent rentals payable by the municipality for two of its office photocopiers. As was the case in the prior year these two leases (each at R2,052 per month including VAT) are currently running on a month to month basis whereby Konica Minolta is the lessor. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	-	787,744

Certain of the municipality's land is held to generate rental income. Rental of land (largely for grazing purposes) was rented out at R159 per hectar per annum for the 2016 - 2017 financial year. A decision was taken during the financial year to align all lease contracts to the financial year of the municipality, except for one rental contract for which specific approval was grant to extent this contract up to 31 October 2017.

The above decision had the impact that as at 30 June 2017 all lease contracts had an expiry date of 30 June 2017 except for the lease contract relating to Ubuhle Bevele Co-Op which expires on the 31st of October 2017.The prior year operating lease disclosure was thus restated to only disclose contract amounts for the period 1 July 2016 - 30 June 2017.

The reason for not disclosing any minimum lease payments due within one year for the year ending 30 June 2017 is because the new lease agreements for year ending 30 June 2018 were being drafted and finalised during July and August 2017..

* See Note 52 & 44

Notes to the Annual Financial Statements

	2017	2016 Restated*

43. Contingencies

Contingent liabilities

Nicolas Soldatos: Legal proceedings have been instituted against the municipality over the death of Nicholas Soldatos, who have left three dependants behind. The contingent liability amount for this legal case for both the 30 June 2016 and 2017 financial years amount to R10,099,995

Human Broers Beheerend: Legal proceedings instituted against the Municipality by Human Broers Beheerend amounts to R73,071 for both the 30 June 2016 and 30 June 2017 financial years. The legal case was made with regards to unpaid work for services rendered to the Municipality.

Unmarked bridge: Claim for damages caused as a result of an unmarked bridge and road works by Barry Roberts amounts to R56,200 for both the 30 June 2016 and 2017 financial years..

Gabriel Du Toit: Gabriel Michael Du Toit alleges that a municipal employee negligently caused an accident. The matter is awaiting a court date.

Afriforum: Claim by Afriforum from the Municipality for non disclosure of information. The amount of the claim is not known at this stage. The parties are awaiting a court date.

Mostert claim: Mr Mostert alleges to have been injured after falling into an open manhole. The contingent liability amounts to R75,000 for both the 2016 and 2017 financial years.

Ulwazi Protection Services: The invoice for Ulwazi Protection Services is contested by the Municipality on the basis of the hours submitted and the total amount owing. The Municipality believes the probability of paying the exact amount is remote and that if the amount is paid, it will be at a reduced amount.

Contingent assets

The Municipality has made a claim against JF Buthelezi for misappropriation of funds. The Municipality is of the opinion that the amount are probable to be recoverable. The amount is R1,358,730 which is similar to the prior financial year's assessment of the contingent asset amount.

44. Prior period errors

It was subsequently note that vote 9776 - 810009 with account description sewer reticulation in ward 6 had no substance. This vote balance of R4,473 was written off to accumulated surplus.Vote 9776 - 810014 with a balance of R3,846,104.72 for VIP toilets on farms relating to the 30 June 2015 financial year was also written off as it was incorrectly included within work in progress.

A full reconciliation of the VAT general votes was performed whereby the VAT votes relating to the accrual basis of accounting (VAT suspense votes) and payment basis (SARS) was performed. The result of the reconciliation was that a prior period error amounting to R4,890,594 was identified whereby the VAT payable has been reduced by this amount. The correction error also had the impact of reducing the prior yaer debt impairment expense by R3,174,250 is this is the component of VAT that was impaired which had to be debited to the VAT Output suspense account.

It was noticed during December 2016 that system journals (con iface) relating to debt arrangements were incorrectly posted to the income forgone vote. This had the result of correcting the prior year balance on vote 9005 - 003500 to the value of R1,416,98.39. Service charges in 2016 was reduced by this amount whereas the credit was posted to debtor arrangements within consumer debtors.

Prior period errors were noted on infrastructure and movable assets. The impact has been disclosed below. The 2016 Statement of Financial Performance impact is such that R1,644,456 has been processed to repairs and maintenance in the prior year.

Notes to the Annual Financial Statements

	2017	2016 Restated*

44. Prior period errors (continued)

During the verification of movable assets there were laptops identified as stolen. The net book value of the assets stolen was R12,592.

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
Property, plant and equipment (Work in progress)	(3,841,633)	-
VAT Payable	4,890,594	-
Consumer debtors	(1,416,984)	-
Movable assets	(9,803)	-
Infrastructure assets	(1,644,456)	-
Payable from exchange transactions	(147,231)	-
Opening Accumulated Surplus (VAT, WIP and Consumer debtors)	2,125,288	-
Opening Accumulated Surplus (Property, plant and equipment)	157,034	-
Statement of financial performance		
Debt impairment	(3,174,250)	-
Service charges	1,416,984	-
Repairs and maintenance	1,644,456	-

Cash flow statement

45. Comparative figures

Certain comparative figures have been reclassified as explained below.

A. An amount of **R163,483** for VAT - Debtors was previously incorrectly included as part of Receivables from exchange transactions. This amount has subsequently been classified to **VAT Payable**.

B. Vote 8551 - 856085 for consumer deposits re-imbursements was incorrectly mapped as part of VAT Payable in the prior year. This has subsequently been corrected by mapping this vote with a balance of **R361,180** to the other payables included within **payables from exchange transactions**.

C. The interest cost on the GRAP 25 defined benefit plan and long service awards have been reclassified to the finance cost line item as it has the impact of providing more meaningful understanding to the users of the financial statements regarding the total finance cost incurred by the municipality.Previously the GRAP 25 interest cost of **R2,151,708** was included in general expenses which has now been reclassified to **finance cost**.

D. Vote 0104-367400 for skill development levy was incorrectly included within the repairs and maintenance expense in the prior year. The prior year expense of **R8,535.29** was subsequently reclassified to **employee costs**.

E. Vote 8250-310000 for current service cost which relates to the GRAP 25 medical aid defined benefit liability was previously incorrectly included within general expenses. This vote with a balance of R693,546 in the prior year has subsequently been reclassified to medical aid costs within the **employee costs** line item.

F. Included within other sundry debtors for the prior year was a debit balance of R49,856.75 which relates to debt arrangements which is part of consumer debtors. The balance of R49,856.75 was thus reclassified to consumer debtors.

The effects of the reclassification are as follows:

Notes to the Annual Financial Statements

Figures in Rand

45. Prior-year adjustments (continued)

Statement of financial position - extract

	Comparative figures previously reported	Reclassification	After reclassification
Receivables from exchange transactions	3,134,746	113,626	3,248,372
VAT Payable	(7,080,905)	197,697	(6,883,208)
Payables from exchange transactions	(37,847,917)	(361,180)	(38,209,097)
Consumer debtors	79,795,557	49,857	79,845,414
Total	**38,001,481**	**-**	**38,001,481**

Statement of financial performance - extract

	Comparative figures previously reported	Reclassification	After reclassification
General expenses	28,526,564	(2,845,254)	25,681,310
Finance cost	398,000	2,151,708	2,549,708
Employee costs	67,111,820	702,081	67,813,901
Repairs and maintenance	14,633,802	(8,535)	14,625,267
Total	**110,670,186**	**-**	**110,670,186**

46. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks namely credit risk and liquidity risk.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

The municipality's credit risk consists mainly of cash deposits, cash equivalents and consumer debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. All the municipality's deposits are of a short term nature to ensure that the municipality's cash flow is not affected.

Consumer debtors comprise a widespread customer base.

Financial assets exposed to credit risk at year end were as follows:

Current assets	**2017**	**2016**
First National Bank (as per bank balance held with counterparty)	88,889,152	94,298,352
Standard Bank of South Africa	76,587	72,149
Consumer debtors	90,297,020	78,428,429

47. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

47. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality .

48. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	229	2,336

The fruitless expenditure of R229 relates to interest charged on Eskom invoices.

49. Irregular expenditure

Opening balance	19,218,186	26,017,321
Add: Irregular Expenditure - current year	-	14,484,401
Less: Amounts condoned / written off	(14,466,991)	(21,283,536)
	4,751,195	**19,218,186**

Details of irregular expenditure condoned

	Condoned by (condoning authority)	
Award made to Monde Consulting Engineers by Rand Water on four different MIG projects.	Council	1,730,230
Non - compliance: The bid committee did not specify the minimum threshold for local production and content	Council	12,736,761
		14,466,991

Details of irregular expenditure recoverable (not written -off)

SCM Processes were not followed by municipal employee for catering	6,000
Procurement of tyres for municipal registration number FHT244MP was done without following SCM processes	9,902
Draft IDP notice to stakeholders was advertised without approval	1,508
	17,410

50. Additional disclosure in terms of Municipal Finance Management Act

Material losses expressed as a percentage

Water material losses expressed as a percentage (%)	28	45
Electricity losses expressed as a percentage (%)	4	28
	-	-

Total water purified for the year ending 30 June 2017 was 3,451,107KL (for year ending 30 June 2017 it was 4,579,000KL). The total KL billed for year ending 30 June 2017 was 2,470,918KL which thus led to a distribution loss of 980,189KL. Expressed as a percentage the non revenue water distribution loss for year ending 30 June 2017 amounted to 28%

The electricity distribution loss for the current year was calculated by subtracting the total electricty KWH billed (conventional and prepaid) from the total bulk purchases of KWH from Eskom. The loss in KWH was then divided by the total KWH purchased. The loss was significantly less than the prior year as numerous illegal connections were discovered and disconnected.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Current year subscription / fee	4,224,150	3,789,220
Amount paid - current year	(4,224,150)	(3,789,220)
	-	-

PAYE and UIF

Current year subscription / fee	9,030,149	8,955,370
Amount paid - current year	(9,030,149)	(8,955,370)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	20,240,343	21,316,005
Amount paid - current year	(20,240,343)	(21,316,005)
	-	-

VAT

VAT payable	4,604,201	1,992,613

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

VAT is payable on a receipts basis. Only once payment is received from a customer (receivable) then the VAT is paid over to SARS.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

30 June 2017		Outstanding more than 90 days	Total
Mavuso BS	-	1,385	1,385
Nkomo LM	-	39,484	39,484
Mavuso BS	-	62,678	62,678
Moloi NLP	-	3,435	3,435
Vilakazi V	-	84,817	84,817
Simelani XI	-	2,176	2,176
Mahlaba FE	-	829	829
Masondo TS	-	12,344	12,344
Manana TE	-	18,494	18,494
Nkambule GR	-	4,234	4,234
	-	**229,876**	**229,876**

30 June 2016		Outstanding more than 90 days	Total
MS Motha	-	16	16
GO Ngwenya	-	38	38
PV Malatsi	-	2,667	2,667
EM Madonsela	-	10,891	10,891
TE Mbokane	-	82	82
	-	**13,694**	**13,694**

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
Emergency	3,104,210	60,000
Impracticable	-	53,580
Sole provider	-	35,550
	3,104,210	**149,130**

51. Budget differences

Material differences between budget and actual amounts

1. **Service charges**: The variance is due to using historical figures for service charges to determine what the estimated revenue will be for year ending 30 June 2017. The anticipated growth in service charges revenue was less than expected

2. **Rental of facilities**: The budgeted amount was based on the previous year's audited figure, hence this item was over-budgeted for.

3. **Interest received - trading**: The variance is due to interest being charged to consumer debtors' accounts due to non-payment of services by consumers.

Figures in Rand	2017	2016

51. Budget differences (continued)

4. **Licences and permits**: The variance is due to interest being charged to consumer debtors' accounts due to non-payment of services by consumers.

5. **Fair value adjustment:** The decrease in fair value adjustment is due to the decline in market value of the Old Mutual financial asset.

6. **Miscellaneous other revenue:** A large part of the variance can be contributed to the fact that numerous tenants vacated flats that are owned by the municipality and rented out.

7. **Interest on investment:** During the financial year the municipality invested surplus cash which generated more interest than anticipated.

8. **Property rates:** Property rates were over budgeted for.

9. **Government grants:** National Treasury did not allow for the unspent portion of the grants as at 30 June 2016 to be rolled over. Instead of the municipality repaying the unspent portion of the conditional grant,National Treasury decided to deduct the unspent portion from this year's equitable share grant.

10. **Fines, penalties and forfeits**: Due to the impact of iGRAP 1 the total traffic fines issued was accounted for traffic fine revenue as opposed to only the cash receipts relating to traffic fines paid.

11. **Depreciation and amortisation**: Depreciation was not calculated during the year. The depreciation calculation for the year was only performed at year end which thus made it difficult to accurately budget for this expense item.

12. **Finance cost**: The "unwinding of discount" relating to the **GRAP 19** (Environmental rehabilitation provision) and **GRAP 25** (Employee benefit obligation) was accounted for as a separate expense line item during the current year. Please refer to paragraph C. within note **44**. "Comparative figures".

13. **Debt impairment**: As indicative of the increase in interest from trading the older debt (greater than180 days) is starting to accumulate within the consumer debtors sub ledger.This has resulted in an increased debt impairment calculation for the current financial year.

14. **Repairs and maintenance**: Actual repairs carried out versus budgeted repairs was less than expected.

15. **Transfer and subsidies**: Included within transfers and subsidies are expenses relating to VIP toilets. The reason for the was undertaken whilst in the current year two VIP toilet projects were implemented and completed.

16. **Public contributions and donations**: The Department of Water and Sanitation identified the municipality as a recipient of a donation whereby these funds have been used to refurbish the waste water treatment works in Amersfoort.

52. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following paragraph as per the revised GRAP 17.

- GRAP 17 paragraph 87

GRAP 17 - par 87: Disclosure of work in progress per asset class

During the year, the municipality changed its accounting policy with respect to the treatment of work in progress in order to conform with the GRAP 17 paragraph 87 which requires that work in progress needs to be disclosed per asset class. The municipality now discloses work in progress as part of the respective asset class as reconciled in note 3 of financial statements.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2016 is as follows:

Dr PIXLEY KA ISAKA SEME

Annual Financial Statements for the year ended 30 June 2017

Appendix B

Analysis of property, plant and equipment as at 30 June 2017

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Closing Balance	Opening Balance	Disposals	Transfers	Depreciation	Impairment loss	Closing Balance	Carrying value
Land and buildings														
Land	59,820,854.66	-	-	-	-	-	59,820,854.66	-	-	-	-	-	-	59,820,854.66
Buildings	145,505,971.98	217,982.45	-	-	-	-	145,723,954.43	60,517,230.06	-		3,767,480.99		64,284,711.05	81,439,243.38
	205,326,826.64	217,982.45	-	-	-	-	205,544,809.09	60,517,230.06	-	-	3,767,480.99	-	64,284,711.05	141,260,098.03
Infrastructure														
Road Network	372,014,452.08	-					372,014,452.08	216,985,511.07	-	-	7,440,289.04		224,425,800.12	147,588,651.96
Wastewater network														
Electricity Network	181,264,114.45	12,596,456.18					193,860,570.63	96,567,363.54			5,543,384.86		102,110,748.40	91,749,822.23
Water network	355,278,492.70	9,990,260.79					365,268,753.49	181,926,326.21			7,538,849.43		189,465,175.64	175,803,577.85
	908,557,059.23	22,586,716.97	-	-	-	-	931,143,776.20	495,479,200.83	-	-	20,522,523.32	-	516,001,724.16	415,142,052.04
Community Assets														
Community Assets	32,186,214.85	-	-	-	-	-	32,186,214.85	8,041,815.57	-	-	718,876.79	-	8,760,692.35	23,425,522.49
	32,186,214.85	-	-	-	-	-	32,186,214.85	8,041,815.57	-	-	718,876.79	-	8,760,692.35	23,425,522.49
Other property, plant and equipment														
Specialised vehicles														
Other Specialised equipment	13,398.31	-				322.70	13,398.31	7,721.37			1,116.53		8,837.90	4,237.71
Kitchen Equipment	120,557.39	-				6,879.73	120,557.39	69,126.72			10,067.51		79,194.23	34,483.43
Computer Equipment	1,122,842.31	103,106.14	-			12,494.05	1,225,948.45	287,357.78			125,105.13		412,462.91	800,991.49
Motor Vehicles	12,680,580.60	4,156,131.00				1,199,428.28	16,836,711.60	2,777,595.51			448,050.85		3,225,646.37	12,411,636.96
Furniture & Fittings	1,654,901.07	-	-			25,488.61	1,654,901.07	1,006,451.96	-		133,602.63		1,140,054.59	489,357.87
Office Equipment	519,027.50	17,730.00				12,692.85	536,757.50	297,642.19			46,895.01		344,537.20	179,527.45
Workshop equipment	231,795.93	424,289.41				2,082.32	656,085.34	116,595.68			39,215.91		155,811.59	498,191.43
Gardening equipment	26,735.34	-				216.95	26,735.34	14,878.43			3,162.48		18,040.92	8,477.47
Communication Equipment	38,152.63	-					38,152.63	1,087.64			3,179.39		4,267.02	33,885.60
Sport Equipment	3,812.72					0.52	3,812.72	1,851.30			381.28		2,232.58	1,579.62
Work in progress	23,439,194.68			31,284,962.80			28,224,229.47							
	39,850,998.48	4,701,256.55	-	31,284,962.80	-	1,259,606.01	49,337,289.82	4,580,308.58	-	-	810,776.71	-	5,391,085.29	14,462,369.05
Total property, plant and equipment														
Land and buildings	205,326,826.64	217,982.45	-	-	-	-	205,544,809.09	60,517,230.06	-	-	3,767,480.99	-	64,284,711.05	141,260,098.03
Infrastructure	908,557,059.23	22,586,716.97	-	-	-	-	931,143,776.20	495,479,200.83	-	-	20,522,523.32	-	516,001,724.16	415,142,052.04
Community Assets	32,186,214.85	-	-	-	-	-	32,186,214.85	8,041,815.57	-	-	718,876.79	-	8,760,692.35	23,425,522.49
Other property, plant and equipment	39,850,998.48	4,701,256.55	-	31,284,962.80	-	1,259,606.01	49,337,289.82	4,580,308.58	-	-	810,776.71	-	5,391,085.29	14,462,369.05
	1,185,921,099.19	27,505,955.97	-	31,284,962.80	-	1,259,606.01	1,218,212,089.95	568,618,555.05	-	-	25,819,657.81	-	594,438,212.86	594,290,041.61
Investment properties														
Investment property land	51,793,231.88						51,793,231.88	-						51,793,231.88
Investment property	73,918,204.87						73,918,204.87	16,776,969.25			1,174,049.40		17,951,018.65	55,967,186.22
	73,918,204.87	-	-	-	-	-	73,918,204.87	16,776,969.25	-	-	1,174,049.40	-	17,951,018.65	55,967,186.22
Total														
Land and buildings	205,326,826.64	217,982.45	-	-	-	-	205,544,809.09	60,517,230.06	-	-	3,767,480.99	-	64,284,711.05	141,260,098.03
Infrastructure	908,557,059.23	22,586,716.97	-	-	-	-	931,143,776.20	495,479,200.83	-	-	20,522,523.32	-	516,001,724.16	415,142,052.04
Community Assets	32,186,214.85	-	-	-	-	-	32,186,214.85	8,041,815.57	-	-	718,876.79	-	8,760,692.35	23,425,522.49
Other property, plant and equipment	39,850,998.48	4,701,256.55	-	31,284,962.80	-	1,259,606.01	49,337,289.82	4,580,308.58	-	-	810,776.71	-	5,391,085.29	14,462,369.05
Investment properties	73,918,204.87	-	-	-	-	-	73,918,204.87	16,776,969.25	-	-	1,174,049.40	-	17,951,018.65	55,967,186.22
	1,259,839,304.06	27,505,955.97	-	31,284,962.80	-	1,259,606.01	1,292,130,294.82	585,395,524.29	-	-	26,993,707.21	-	612,389,231.50	650,257,227.84